

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name North Kent Sewer Authority	County Kent
Audit Date 12/31/04	Opinion Date 2/23/05	Date Accountant Report Submitted to State: 6/30/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

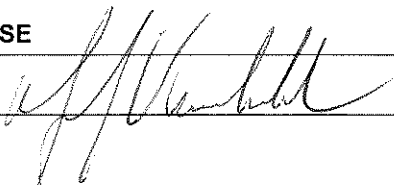
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASL GU).			✓

Certified Public Accountant (Firm Name) Rehmann Robson			
Street Address 2330 East Paris Ave SE		City Grand Rapids	State MI
Accountant Signature 		ZIP 49546	Date 5/19/05

NORTH KENT SEWER AUTHORITY

COUNTY OF KENT, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

NORTH KENT SEWER AUTHORITY

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

February 23, 2005

North Kent Sewer Authority
Board of Trustees
County of Kent, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the **NORTH KENT SEWER AUTHORITY** (the "Authority"), as of and for the year ended December 31, 2004, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the **North Kent Sewer Authority's** management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the **North Kent Sewer Authority** as of December 31, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2-6 is not a required part of the basic financial statements but is supplementary information required by the *Governmental Accounting Standards Board*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Management's Discussion and Analysis

As management of the North Kent Sewer Authority (the "Authority"), we offer readers of the North Kent Sewer Authority financial statements this narrative overview and analysis of the financial activities for the fiscal year ended December 31, 2004. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

The North Kent Sewer Authority is a joint venture established to account for the activities associated with the construction and maintenance of sewer system infrastructure utilized by participating municipalities. Participating municipalities include Alpine, Cannon and Courtland Townships, Plainfield Charter Township and the City of Rockford.

Financial Highlights

1. Sewage Treatment Plant
The Authority's primary activity during the year was the engineering project to identify the capacity needs and design specifications of a treatment plant to best meet the needs of participating governments into the future.
2. Capital Projects
The balance of assets held in each of the capital projects was transferred to the general fund to provide funding for the sewage treatment plant costs.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise three components:

1. government-wide financial statements
2. fund financial statements
3. notes to the financial statements

Government-wide Financial Statements

The government-wide financial statements can be found on pages 7 and 8 of this report.

The *statement of net assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of activities* presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*.

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods.

Both of the government-wide financial statements distinguish the various functions of the Authority that are supported by intergovernmental revenues (*governmental activities*) from each other. The governmental activities of the Authority include the cost of maintaining, reconstruction, replacement and upgrading sewage transmission infrastructure.

The government-wide financial statements include only the Authority itself (known as the *Primary government*). The Authority has no legally separate component units for which the Authority is financially accountable. In this report, financial information for the Authority is reported separately from the financial information of joint venture participants.

Fund Financial Statements

The basic governmental fund financial statements can be found on pages 9-12 of this report.

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Authority is accounted for in governmental funds (General, Debt Service and Capital Projects Funds).

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Authority maintains eight governmental funds. Information is presented in the Balance Sheet – Governmental Funds on page 9 and Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds on page 11 for major funds. All funds are reported as major funds in the basic financial statements.

The Authority did not adopt a budget for the general fund for the 2004 fiscal year.

The Authority does not maintain proprietary nor fiduciary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13-18 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management's discussion and analysis.

North Kent Sewer Authority Net Assets

	<u>Governmental Activities</u>	
	<u>2003</u>	<u>2004</u>
Assets		
Current	\$ 998,566	\$ 832,391
Noncurrent		
Due from other governmental units	3,020,084	2,890,986
Capital assets net	<u>12,973,455</u>	<u>13,046,983</u>
Total assets	<u>16,992,105</u>	<u>16,770,360</u>
Liabilities		
Current	202,715	257,894
Long-term	<u>16,510,000</u>	<u>16,030,000</u>
Total liabilities	<u>16,712,715</u>	<u>16,287,894</u>
Net Assets		
Invested in capital assets, net of related debt	295	255,310
Restricted for:		
Capital projects	271,134	218,942
Unrestricted	<u>7,961</u>	<u>8,214</u>
Total net assets	<u>\$ 279,390</u>	<u>\$ 482,466</u>

North Kent Sewer Authority Changes in Net Assets

	Governmental Activities	
	<u>2003</u>	<u>2004</u>
Revenue		
Program revenue		
Charges for services	\$1,369,280	\$1,385,282
Capital grants	302,922	-
General revenue		
Interest income	<u>648</u>	<u>5,447</u>
Total revenue	<u>1,672,850</u>	<u>1,390,729</u>
Expenses		
Public works	326,601	407,269
Interest on long-term debt	<u>802,625</u>	<u>780,384</u>
Total expenses	<u>1,129,226</u>	<u>1,187,653</u>
Increase in net assets	543,624	203,076
Net assets – beginning of year	<u>(264,234)</u>	<u>279,390</u>
Net assets – end of year	<u>\$ 279,390</u>	<u>\$ 482,466</u>

North Kent Sewer Authority Outstanding Debt

	Governmental Activities	
	<u>2003</u>	<u>2004</u>
Annual outstanding bond requirements		
Due within one year	\$ 480,000	\$ 505,000
Due in more than one year	<u>16,030,000</u>	<u>15,525,000</u>
Total Requirements	<u>\$16,510,000</u>	<u>\$ 16,030,000</u>

Additional information on the Authority's long-term debt can be found in Note 5 on page 17 of this report.

Capital Assets

Capital Assets

Major capital projects during the current fiscal year included the following:

- Design and evaluation
- Engineering and permitting
- Activities for the construction of a new plant

**North Kent Sewer Authority
(net of depreciation)**

	<u>Governmental Activities</u>	
	<u>2003</u>	<u>2004</u>
Land	\$ 389,440	\$ 389,440
Construction in progress	-	327,751
Sewer infrastructure	12,711,126	12,711,126
Accumulated depreciation	<u>(127,111)</u>	<u>(381,334)</u>
Total	<u>\$12,973,455</u>	<u>\$13,046,983</u>

Additional information on the Authority's capital assets can be found in Note 4 page 16 of this report.

Financial Analysis of the Government's Funds

As of the end of the current fiscal year the combined fund balance of \$702,552 reflects a decrease of \$225,220 from the previous year. The decrease was due in large part to the design and evaluation engineering and permitting for the new plant. General fund operating and debt services expenditures are billed to participants based on the various system flow studies.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Treasurer, North Kent Sewer Authority, 7 S. Monroe, P.O. Box 561, Rockford, MI 49341.

NORTH KENT SEWER AUTHORITY

STATEMENT OF NET ASSETS

DECEMBER 31, 2004

	<u>Governmental Activities</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 28,835
Restricted cash and cash equivalents	767,553
Due from other governmental units	<u>36,003</u>
Total current assets	<u>832,391</u>
Noncurrent assets	
Due from other governmental units	2,890,986
Capital assets	
Land	389,440
Construction in progress	327,751
Sewer system infrastructure	12,711,126
Less accumulated depreciation	<u>(381,334)</u>
Total noncurrent assets	<u>15,937,969</u>
Total assets	<u>16,770,360</u>
Liabilities	
Current liabilities	
Accounts payable	79,839
Interest payable	128,055
Deposits	<u>50,000</u>
Total current liabilities	<u>257,894</u>
Noncurrent liabilities	
Bonds payable within one year	505,000
Bonds payable in more than one year	<u>15,525,000</u>
Total noncurrent liabilities	<u>16,030,000</u>
Total liabilities	<u>16,287,894</u>
Net assets	
Invested in capital assets, net of related debt	255,310
Restricted for	
Capital projects	218,942
Unrestricted	<u>8,214</u>
Total net assets	<u>\$ 482,466</u>

The accompanying notes are an integral part of these financial statements.

NORTH KENT SEWER AUTHORITY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2004

Functions / Programs	Program Revenues				Net (Expense) Revenue
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Public works	\$ 407,269	\$ 1,385,282	\$ -	\$ -	\$ 978,013
Interest on long-term debt	780,384	-	-	-	(780,384)
Total governmental activities	<u>\$ 1,187,653</u>	<u>\$ 1,385,282</u>	<u>\$ -</u>	<u>\$ -</u>	<u>197,629</u>
General revenues:					
Unrestricted investment earnings					<u>5,447</u>
Change in net assets					203,076
Net assets, beginning of year					<u>279,390</u>
Net assets, end of year					<u><u>\$ 482,466</u></u>

The accompanying notes are an integral part of these financial statements.

Debt Service				
1998 Series	West River 2000 Series	4 Mile Lift 2001 Series	Willow 2002 Series	Total
\$ -	\$ -	\$ -	\$ -	\$ 28,835
-	-	-	-	767,553
2,762,931	-	-	-	2,798,934
<u>\$ 2,762,931</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,595,322</u>
\$ -	\$ -	\$ -	\$ -	\$ 79,839
-	-	-	-	50,000
2,762,931	-	-	-	2,762,931
<u>2,762,931</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,892,770</u>
-	-	-	-	702,552
-	-	-	-	702,552
<u>\$ 2,762,931</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,595,322</u>

**Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets
on the Statement of Net Assets**

DECEMBER 31, 2004

Fund balances - total governmental funds	\$ 702,552
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets	13,428,317
Deduct - accumulated depreciation	(381,334)

Some assets reported in the balance sheet do not provide current financial resources and therefore are not included in fund balance on the fund financial statements

Add - deferred revenue related to long-term receivables from other governments	2,762,931
Add - receivable for accrued interest	128,055

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds payable	(16,030,000)
Deduct - accrued interest on bonds payable	<u>(128,055)</u>

Net assets of governmental activities	<u><u>\$ 482,466</u></u>
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The accompanying notes are an integral part of these financial statements.

Debt Service				
1998 Series	West River 2000 Series	4 Mile Lift 2001 Series	Willow 2002 Series	Total
\$ 332,388	\$ 338,406	\$ 398,688	\$ 194,768	\$ 1,502,299
-	-	-	-	17,528
332,388	338,406	398,688	194,768	1,519,827
-	-	-	-	475,376
-	-	-	-	5,421
160,000	105,000	145,000	70,000	480,000
172,388	233,406	253,688	124,768	784,250
332,388	338,406	398,688	194,768	1,745,047
-	-	-	-	(225,220)
-	-	-	-	928,002
-	-	-	-	(928,002)
-	-	-	-	-
-	-	-	-	(225,220)
-	-	-	-	927,772
\$ -	\$ -	\$ -	\$ -	\$ 702,552

NORTH KENT SEWER AUTHORITY

Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds to the Statement of Activities

FOR THE YEAR ENDED DECEMBER 31, 2004

Net change in fund balances - total governmental funds \$(225,220)

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	327,751
Deduct - depreciation expense	(254,223)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but is a reduction in bonds payable on the government-wide statements.

Add - principal payments on bonds payable	480,000
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Some revenue reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the statement of revenues, expenditures and changes in fund balances.

Deduct - change in receivable from other governments for interest	(3,866)
Deduct - change in long-term receivable from other governments	(125,232)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the statement of revenues, expenditures and changes in fund balances.

Add - decrease in accrued interest payable on bonds	<u>3,866</u>
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Change in net assets of governmental activities	<u><u>\$ 203,076</u></u>
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The accompanying notes are an integral part of these financial statements.

NORTH KENT SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the North Kent Sewer Authority (Authority) conform to generally accepted accounting principles as applied to governmental entities. The following is a summary of the significant policies.

Reporting Entity

The North Kent Sewer Authority, which is established pursuant to Michigan Act 233, is a joint venture governed by a five member Board of Trustees appointed by the legislative bodies of five participating municipalities. The Authority was established to account for activities associated with the construction and maintenance of sewer system infrastructure utilized by participating municipalities. Participating municipalities include:

City of Rockford
Alpine Township
Cannon Township
Courtland Township
Plainfield Charter Township

Participating municipalities fund operating and debt service costs based on their common and exclusive sewer system usage.

The criteria established by the Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity", for determining the reporting entity includes a significant operational financial relationship with another entity. Based on the above criteria, these financial statements present all funds of the North Kent Sewer Authority.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the governmental fund activities of the primary government (the North Kent Sewer Authority). For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are supported by intergovernmental revenues and fees. The System does not utilize proprietary or fiduciary funds.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

NORTH KENT SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Charges for services are recognized as revenues in the year for which they are earned. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Intergovernmental charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The West River 2000 Series Capital Projects Fund is used to account for the replacement of sewer system transmission infrastructure in the West River Drive area.

The 4 Mile Lift 2001 Series Capital Projects Fund is used to account for replacement of the 4 Mile Lift Station.

The Willow 2002 Series Capital Projects Fund is used to account for replacement of the sewer system transmission system under the Grand River.

The *Debt Service Funds* including the 1998 Series, West River 2000 Series, 4 Mile Lift 2001 Series, Willow 2002 Series all account for the receipt of participants payments and the payment of principal and interest on debt utilized to finance infrastructure reconstruction, expansion and or improvement projects.

NORTH KENT SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of demand and time deposits which are carried at fair value.

Deferred Revenue

The System reports deferred revenue when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenue represents amounts due from participants in future periods.

Due From Other Governmental Units

All due from other governmental units are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. (Uncollectible balances were zero at year end).

Capital Assets

Capital assets, which include property and equipment, are reported in the government-wide statements (statement of net assets and statement of changes in net assets). Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements.

Depreciation is recorded over the estimated useful lives (50 years for sewer infrastructure) of the assets, using the straight-line method for all capital assets.

Budgets and Budgetary Accounting

The Authority did not adopt a budget for the General Fund for the current year.

NORTH KENT SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

2. CASH AND CASH EQUIVALENTS

Deposits consist of demand and time accounts (CD's) which are in the name of the Authority. Michigan Compiled Laws, authorizes the Authority to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States in which the principal and interest are fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or federal agency obligation repurchase agreements; bankers acceptances of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase, and which involve no more than 50 percent of any one fund. Attorney's General Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

The Authority's deposits are in accordance with statutory authority. Deposits with financial institutions including both cash and interest bearing deposits and investments (CD's) with a carrying value totalling \$796,388 and a bank balance of \$799,388 at December 31, 2004, were covered by \$190,149 of Federal depository insurance. Therefore, \$609,239 was uninsured and uncollateralized.

3. RELATED PARTY TRANSACTIONS

Operating revenues and fiscal year end receivables are attributed to related parties as follows:

	Intergovernmental Revenue	Due From Other Governments
City of Rockford	\$ 367,399	\$ 74,127
Alpine Township	219,262	25,724
Cannon Township	157,221	18,106
Courtland Township	23,369	2,689
Plainfield Charter Township	605,950	2,806,343
	<u>\$1,373,201</u>	<u>\$2,926,989</u>

4. CAPITAL ASSETS

The following is a summary of changes in capital assets during the year ended December 31, 2004:

	Beginning of Year	Additions	Retirements	End of Year
Capital assets not being depreciated				
Land	\$ 389,440	\$ -	\$ -	\$ 389,440
Construction in progress	-	327,751	-	327,751
Capital assets being depreciated				
Sewer infrastructure	12,711,126	-	-	12,711,126
Less accumulated depreciation	(127,111)	(254,223)	-	(381,334)
Total capital assets, net	<u>\$12,973,455</u>	<u>\$ 73,528</u>	<u>\$ -</u>	<u>\$13,046,983</u>

NORTH KENT SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

5. LONG-TERM DEBT

Long-term debt of the Sewer Authority consists of the following:

	<u>Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>End of Year</u>	<u>Due Within One Year</u>
1998 Sewer Bonds due in annual installments from \$120,000 to \$365,000 through May 2018; interest at 3.0 to 7.0%.	\$ 3,690,000	\$ -	\$160,000	\$ 3,530,000	\$165,000
2000 Sewer Bonds due in annual installments from \$50,000 to \$35,000 through May 2025; interest at 5.0 to 5.5%.	4,415,000	-	105,000	4,310,000	115,000
2001 Sewer Bonds due in annual installments from \$105,000 to \$325,000 through November 2026; interest at 2.6% to 4.9%.	5,705,000	-	145,000	5,560,000	155,000
2002 Sewer Bonds due in annual installments from \$70,000 to \$190,000 through November 2027; interest at 2.70% to 5.05%.	2,700,000	-	70,000	2,630,000	70,000
Total	<u>\$16,510,000</u>	<u>\$ -</u>	<u>\$480,000</u>	<u>\$16,030,000</u>	<u>\$505,000</u>

The principal and interest payment requirements to maturity of the bonds outstanding as of December 31, 2004, are as follows:

	<u>Principal</u>	<u>Interest</u>
2005	\$ 505,000	\$ 759,536
2006	530,000	734,029
2007	545,000	706,978
2008	580,000	678,078
2009	605,000	647,215
2010-2014	3,525,000	2,747,230
2015-2019	4,270,000	1,896,982
2020-2024	3,805,000	988,156
2025-2027	1,665,000	122,192
Total	<u>\$16,030,000</u>	<u>\$9,280,396</u>

NORTH KENT SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

6. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, destruction of assets and errors and omissions for which it obtains coverage from commercial insurance companies. The Authority has had no settled claims resulting from these risks that exceeded commercial coverage in any of the past three years.

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